

Message Text

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ACTION OES-07

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PASS DOE FOR ASSISTANT SECRETARY BERGOLD

EO 11652: N/A
TAGS: ENRG, CA
SUBJECT: SURPLUS REFINERY CAPACITY/NORTHERN TIER REQUIRE-
MENTS

1. SUMMARY. EMR OFFICIALS HAVE RAISED WITH US AGAIN
CANADIAN INTEREST IN INCREASED USE OF REFINERIES IN THE
MARITIMES. IN RETURN FOR IN-BOND USE BY THE U.S. THEY
WOULD CONSIDER INCREASED LIGHT CRUDE EXPORTS TO THE
NORTHERN TIER. REQUEST ANALYSIS OF NORTHERN TIER NEEDS
AND INSTRUCTION ON RESPONSE. END SUMMARY.

2. EMR IS WORKING HARD TO FIND A WAY TO EXPAND THE GAS
NETWORK IN QUEBEC AND THE MARITIMES, IN ORDER TO MAKE A
FURTHER DEMONSTRATION TO THE QUEBEC PUBLIC OF THE BENEFITS
OF FEDERATION, TO RESPOND TO NATIONALIST OPINION THROUGH-
OUT THE COUNTRY TO USE CANADIAN RESOURCES IN CANADA, AND
TO PROVIDE AN ADDITIONAL (IF LIMITED) MARKET FOR INCREAS-
ING AVAILABILITY OF ALBERTA GAS. HOWEVER, WITHOUT A
SUBSTANTIAL FEDERAL SUBSIDY, ADDITIONAL GAS COULD NOT BE
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SOLD COMPETITIVELY IN THE SMALL QUANTITIES REQUIRED IN
CENTRAL QUEBEC AND THE MARITIMES AS LONG AS THE CURRENT
SURPLUS OF REFINERY CAPACITY CONTINUES AND RESID IS BEING
SOLD AT INCENTIVE PRICES. THUS THE KEY TO THE PROBLEM FOR
EMR IS TO FIND A WAY TO USE SOME OR ALL OF EXISTING UN-
EMPLOYED REFINERY CAPACITY (CURRENTLY 300,000 BARRELS A
DAY EXCLUDING COME-BY-CHANCE).

3. EMR RECOGNIZES THAT THE U.S. HAS NO INTEREST IN DIVERTING REFINERY THROUGHPUT FROM CARIBBEAN AND EAST COAST INSTALLATIONS, IN ABSENCE SUBSTANTIAL INDUCEMENTS. THEY ARE THUS ASKING WHETHER THE U.S. WOULD BE INTERESTED IN INCREASED LIGHT CRUDE SHIPMENTS TO NORTHERN TIER REFINERIES. SINCE SURPLUS CAPACITY IN EASTERN CANADA WILL BE ABSORBED AS DEMAND INCREASES, DEAL WOULD BE LIMITED IN TIME, PERHAPS TO A TWO-YEAR PERIOD WITH AN EVERGREEN PROVISION. U.S. WOULD SHIP CRUDE TO CANADIAN REFINERIES IN BOND, AND IMPORT THE PRODUCT. IN RETURN, CANADA WOULD INCREASE OUTPUT OF LIGHT CRUDES (EMR RECOGNIZES THAT SHUT-IN CAPACITY IS ALREADY BECOMING A PROBLEM). THEIR THINKING HASN'T EVOLVED FAR ENOUGH TO PUT FORWARD CONCEPTS OF HOW MUCH ADDITIONAL LIGHT CRUDE WOULD BE EXPORTED TO THE U.S. IN RETURN FOR HOW MUCH REFINERY THROUGHPUT.

4. IN SEPARATE CONVERSATION WITH CONGRESSMAN BAUCUS OF MONTANA APRIL 13 EMR OFFICIALS RAISED IDENTICAL PROPOSAL, BUT WITH REFERENCE TO MONTANA REQUIREMENTS ONLY. CANADIANS FIRMLY LINKED POSSIBLE SHORT-TERM EXTENSION OF LIGHT CRUDE EXPORTS FOR MONTANA TO USG ASSISTANCE WITH CANADIAN EXCESS REFINING CAPACITY PROBLEM.

5. ACTION REQUESTED: BASIC U.S. INTEREST REMAINS DEVELOPMENT OF AN OPTION TO BUILD AN OIL LINE ACROSS WESTERN LIMITED OFFICIAL USE

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CANADA. HOWEVER, THAT ISSUE CANNOT BE READDRESSSED (IF AT ALL) BEFORE THE NEB BRINGS IN ITS REPORT ON OIL IMPORT REQUIREMENTS IN THE 80'S, PROBABLY NOT UNTIL LATE FALL OF THIS YEAR.

6. WHETHER NORTHERN TIER PIPELINE, KITIMAT, OR OTHER SOLUTIONS ARE ADOPTED, NORTHERN TIER WILL BE AT LEAST ANOTHER TWO YEARS AND POSSIBLY LONGER WITHOUT A PERMANENT SOLUTION. IF ANALYSIS SHOWS THAT ASSISTANCE IN MAINTAINING CRUDE SUPPLIES MAY BE REQUIRED THIS WINTER AND THE NEXT, THE EMR CONCEPT MAY HAVE SOME ATTRACTIONS FOR US. IN THAT CASE, WE MAY WANT TO FOLLOW UP THE CANADIAN LEAD. IF WE OPERATE ON A SHORT-TERM BASIS ONLY, MARITIME REFINERY USAGE MAY STILL BE AROUND AS LEVERAGE ON KITIMAT IF AND WHEN THAT ISSUE COMES BACK FOR DISCUSSION.

7. IF, OF COURSE, THE NORTHERN TIER LOOKS O.K., OR THE PROBLEMS OF GREATER IMPORTS OF PRODUCT ARE INSUPERABLE, WE SHOULD SO TELL THE CANADIANS. ENDERS

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